

VZCZCXRO3553
OO RUEHDBU
DE RUEHMO #2900/01 3470651
ZNY CCCCC ZZH
O 130651Z DEC 06
FM AMEMBASSY MOSCOW
TO RUEHC/SECSTATE WASHDC IMMEDIATE 5805
INFO RUCNCIS/CIS COLLECTIVE PRIORITY
RUEHXD/MOSCOW POLITICAL COLLECTIVE PRIORITY

C O N F I D E N T I A L SECTION 01 OF 04 MOSCOW 012900

SIPDIS

SIPDIS

E.O. 12958: DECL: 12/06/2016

TAGS: PREL PGOV ECON ETRD PINR KN RS
SUBJECT: CHITA: CONDEMNED LAND SEEKS FUTURE AS GATEWAY TO CHINA

Classified By: Pol/Min Alice G. Wells. Reasons 1,4 (B/D)

¶1. (C) Summary. Squeezed between China and the rest of Siberia and challenged with an oppressively harsh climate, Chita Oblast has historically served as a place of exile and remains one of Russia's poorest regions. The break-up of the Soviet Union led to the collapse of the region's livestock and dairy farming, closure of military bases, and widespread looting of mineral extraction businesses -- depressing further the region's already low living standards. Although Chita has so far not gained from Russia's economic growth, there are glimmers of hope. Prospective unification with the Aginsk Buryat Autonomous Area and construction of new rail lines to transport the region's large deposits of minerals and gold hold out prospects for growth. Rail and road connections between the capital, Chita, and the border town of Zabaikalsk serve as the main transport corridor between Russia and China. China's booming economy has created envy among oblast residents, who hope that their region can become a prosperous gateway to China and beyond. End summary.

.

Survival Mentality: A Special Breed

¶2. (C) Nikolay Korylyov, Deputy Head of the Chita Regional Department for Foreign Economic Relations, considered the imperative of "survival" the most important element in any Chita resident's psychology. Despite the complicated ethnic composition of the region (over 120 groups), conditions in a harsh and distant landscape have forced residents to cooperate. Except for a few recent isolated cases, there has been no notable ethnic discord, he said. Difficult natural conditions -- a short summer growing season and winter temperatures routinely dropping to minus 30-50 degrees (centigrade) -- coupled with chronic neglect by Moscow has created a "special" mentality, he added. Marina Meteleva, a journalist with the largest-circulation regional daily "Zabaikalskiy Rabochiy," claimed that the Center always had a "just in case" attitude toward the Oblast: just in case this faraway border region fell into the hands of enemies, the Center did not want to lose any important industries, so none were located here.

.

From Decembrists to Khodorkovskiy

¶3. (C) Moscow's lack of concern for the region's economy has historically been coupled with the practice of sending people here whom the government would like to forget. Eighty-five Decembrists, who angered Tsar Nicholas I by planning an uprising to transform Russia and free her from serfdom, were exiled to Chita in 1825, and left behind a legacy of culture, education and the beautifully planned mini-St. Petersburg, that is the city of Chita. Nicknamed by "Zabaikalskiy Rabochiy"'s chief editor Aleksandr Barinov, as "our

Decembrist," Yukos Oil's Mikhail Khodorkovskiy is now serving a nine-year term in the Krasnokamensk prison, located 25 miles from Zabaikalsk.

.

Moscow Spoils Where China Helps

¶4. (C) All our interlocutors agreed that the biggest frustration for the region was the limited means available to promote development, despite Chita's location in an area rich in natural resources. The Oblast budget is meager and Chita is heavily dependent on subsidies from Moscow. Although almost every element in Mendeleev's table could be found somewhere in the Oblast, profits go to Moscow, stripping the area of a much-needed incentive to develop its economic potential. The same is true of customs revenue from rapidly-increasing trade with China. Chita has two Chinese clothing markets and two produce markets populated by a mixture of Chinese and Russian vendors (and a few Koreans from Northeast China.) A quick survey of the markets showed that some Chinese vendors came from as far as Fujian Province. In addition, over two million people cross the Zabaikalsk-Manzhouli (China) border each year and up to 16,000 Chinese job seekers legally come to the Oblast each year to work, mostly in the construction industry. Interfax Chita's Aleksandr Karpenko summarized the Chinese presence in Chita as "China feeds us, clothes us, and houses us. We cannot survive without the Chinese."

.

Charming City, But Where Are the Jobs?

MOSCOW 00012900 002 OF 004

¶5. (C) Despite the sharply expanding trade with China, little seems to have changed in Chita itself. Although we doubt the city will see an influx of tourists anytime soon to pump up the local economy, the town fathers make an effort to cultivate the romantic aura surrounding its exile history, spotlighting the impeccably preserved church (now a museum) that the Decembrists built. Chita's politics are stuck in a time warp of their own. United Russia (YR) controls 20 of the Oblast Duma's 42 seats. The remainder are apportioned among the Communists (7), the Liberal Democratic Party of Russia (3), and the Agrarian Party (3). The recently-formed, "second" pro-Kremlin party, "Just Russia," is still in its formative stages, while Yabloko is barely present. Marina Meteleva described "Just Russia" to us as an opposition party that could not be taken seriously. Yabloko's Igor Linnic claimed that citizens are too "apolitical" to be interested in his party, which he described as a "group of intellectuals oriented toward European democracy."

6, (C) Yuriy Kon, a YR oblast Duma member, seconded other interlocutors' belief that Moscow understood Russia only up to the Ural Mountains. To resuscitate the economy, he argued that Chita needed to find a way to process rather than just export raw materials to China. Aleksandr Shchvetsov, First Secretary of the Communist Party, contemptuously termed YR a

SIPDIS
"party of industrialists and bureaucrats." He blamed the Putin government for engaging with China without first clarifying Russia's geopolitical and economic interests. His party base draws from those who join because of a perceived lack of social justice in the society.

¶7. (C) For residents looking for employment, the China trade is both a source of hope and frustration. Vasily Glazkov, who serves as an administrator in the border town of Zabaikalsk, gloomily reminisced about the days when residents of Manzhouli on the Chinese side of the border crossed to Russia in search of food and employment. The tide turned rapidly when the Soviet Union collapsed, he said. In the

economic chaos that followed, oblast residents sold everything from scrap metal to timber to China. Once prosperous metal processing factories now lay in ruins. Anything of value had been stripped and shipped to China. Journalist Meteleva lamented that every 20 minutes a trainload of timber, mostly illegally harvested, left Zabaikalsk for Manzhouli. Nataliya Kovalyona of the Dauria Ecological Center, worried that the famous Russian taiga was steadily disappearing.

Chita-Zabaikalsk: 304 miles of Hardship

18. (C) To get a closer look at what changes the cross-border trade was spurring in the oblast, we took the daily train from Chita to the Chinese border some 304 miles away. The twelve-hour trip is a very slow ride. (It takes only 6-8 hours by car over a two-lane road). Relatively well-to-do Russians and Chinese pay the equivalent of USD 50 for a berth in a four-person compartment with a simple dinner and tea. The monotonous view of the immense steppe is broken only by a handful of poor villages, small herds of animals, and numerous deserted military garrisons, which were pillaged after they were shut down. (Note: Border disputes between the USSR and PRC led to a heavy military presence up to the early nineties. End Note.) The region's farmers have suffered most from the collapse of the Soviet Union. "The farmers have nothing to do, so they drink," said Olga Kobzistaya of the Oblast Duma's Press Service. Nikolay, a forty-year old taxi driver, told us that as a young boy, he saw large herds of sheep and cows on the steppe. A uranium miner we ran into had bounced from Uzbekistan to Kazakhstan, then to Krasnokamensk as the region's uranium mines closed one after another. His father, after working 35 years in underground uranium mines, received a pension of a little under USD 100 each month. His hands shook and he was deaf in one ear. Nikolay described perestroika as "the worst thing that ever happened." He dreamt of Russia with a Turkmenbashi-like leader. Putin, he said, was the world's "biggest thief."

Bright Lights of Manzhouli and Wasteland of Zabaikalsk

19. (C) Reaching the border, even the relative optimism felt in Chita seems very far away. Zabaikalsk, a city of 12,000, is located opposite the booming Chinese city of Manzhouli, which has a population of 90,000 (200,000 if the population of neighboring industrial city Heila is added, according to local officials). While residents hope to tap into the border trade, these efforts have been stymied by failed

MOSCOW 00012900 003 OF 004

negotiations for a free economic zone, which we were told fell apart because of rigid Russian laws. Russians noted that about five miles away in Manzhouli, on the Chinese side, a large shopping center had already been built on spec within the projected free economic zone and the city featured a "Matyushika Square," which had memorials dedicated to Russian heroes such as Peter the Great and Yuriy Gagarin to welcome Russian visitors. In contrast, Zabaikalsk's border area is a desolate no-man's land with few buildings, and even those have been built and are operated by the Chinese. The only places to eat are flyblown pirogiv stands; clean toilets and supermarkets are virtually non-existent .

10. (C) Russian customs agent Marina, aged 43, told us she shops and vacations regularly in Manzhouli. Marina is one of the 500 customs agents now posted to the border region, a number up sharply from the eight agents present when the border reopened in 1988. Over seventy percent of Russian exports and imports to China transit Zabaikalsk and indeed the Chita-Zabaikalsk connection is the main Russian corridor to China and beyond. Marina told us that on each of her

trips across the border, she treats herself to good Chinese food, a massage, and a facial, items that are unavailable in Zabaikalsk. In 2005, she managed to buy a USD 800 travel package (more than her monthly salary) for a 10-day stay in Hainan Island in southern China. Noting that Manzhouli is chock-a-block with freshly-constructed western-style buildings, she told us that Manzhouli was everything Zabaikalsk wasn't.

.

Can We All Get Along?

¶11. (C) While dismal economic conditions and disappointment over the lack of economic opportunities from the booming cross-border trade create a sour mood in Chita, the oblast has so far managed to avoid the ethnic tensions that have plagued other parts of Russia. In addition to the most numerous minority group, the Buryats, there are up to 120 other groups represented in the oblast. Some of our interlocutors reflected on the varied ethnic mix in Chita, the lack of conflict among residents, and the permeability of borders. For example:

--Yuriy Kon (56) is an oblast Duma member. Kon's father, a native of North Kyungsang Province, Korea, was sent to Sakhalin during the Japanese occupation of Korea. He left his wife, a son, and a daughter behind. After the Korean War, Kon was not able to return to Korea. He remained in Sakhalin and married a Japanese woman, Yuriy's mother. The family later moved to Chita. Yuriy married a Russian-Finnish woman and has a son and a daughter. His stepbrother (now deceased), then a member of the Korean Parliament, in searching for his father located Kon in Chita. The two families were reunited two years after his father's death in ¶2000.

--Mrs. Kim (56) is a vendor in one of the two Chita Chinese clothing markets. Her father, a native of South Kyungsang Province, Korea, fled to the Chinese northeast during the Japanese occupation. Like Kon's father, he also could not return home following the end of the Korean war. After making a few futile attempts to relocate to South Korea, Mrs. Kim moved north, to Chita, where she sells sweaters and makes USD 300-400 a month. She plans to return to her family in Yanbian when she has saved enough money.

.

A Ray of Hope: from Oblast (Region) to Kray (Territory)

¶12. (C) Despite the economic stagnation we saw, Stepan Zhiryakov, Director of Highland Gold Mining's Chita branch (a joint venture of Russia, Canada and the U.K.) was optimistic about the oblast's future. According to Zhiryakov, the most promising project to be undertaken by the Center will be a new railway to connect Margutsek to Budyuzhan along the Chinese border. The projected rail line would connect twenty mineral deposit sites, stimulating the reopening of closed mines. There are also plans to construct a new railway to China between Kariymskoye to Zabaikalsk. Chita residents are also counting on an administrative changes to spur economic prospects. Like other regions -- Perm, Krasnoyarsk, and Irkutsk -- which have successfully merged their oblast governmental structures with a neighboring autonomous area, Governor Ravil Geniatulin (an ethnic Tatar) is promoting the unification of the oblast and the Aginsk Buryat Autonomous Area. The goal of the merger is to draw more resources from the Center. The status of "kray" is more prestigious than oblast and should lead to more significant economic support

MOSCOW 00012900 004 OF 004

from Moscow. A referendum on unification will be held on March 1, 2007.

.

Comment

¶13. (C) Never a favorite region of Russia's rulers, the oblast still struggles. It is well situated to serve as the main gateway to China, and it is rich in natural resources. It lacks, however, the infrastructure necessary to capitalize on that potential and the Center's support. The ruined agricultural system has created a wave of social problems, prominently alcoholism, in the villages and lack of liquidity has meant that many factories and housing compounds have deteriorated beyond repair. Neighboring China is both a potential economic lever and a constant reminder of what could be if the right policies are put in place.

BURNS